VZCZCXYZ0018
RR RUEHWEB

DE RUEHBU #1049/01 1442231
ZNY EEEEE ZZH (CCY ADC3F53C MSI1110-695)
R 242231Z MAY 07
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC 8262
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOC/USDOC WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE USD FAS WASHINGTON DC
RHMFIUU/HQ USSOUTHCOM MIAMI FL
RUEHAC/AMEMBASSY ASUNCION 6195
RUEHMN/AMEMBASSY MONTEVIDEO 6472
RUEHSG/AMEMBASSY SANTIAGO 0438
RUEHBR/AMEMBASSY BRASILIA 6062
RUEHLP/AMEMBASSY LA PAZ MAY SAO PAULO 3300
RUEHRI/AMCONSUL RIO DE JANEIRO 2238

UNCLAS E F T O BUENOS AIRES 001049

SIPDIS

SENSITIVE NOFORN SIPDIS

C O R R E C T E D COPY CLASSIFICATION

PASS NSC FOR JOSE CARDENAS
PASS USTR FOR SUE CRONIN AND MARY SULLIVAN
USDOC FOR 4322/ITA/MAC/OLAC/PEACHER
US SOUTHCOM FOR POLAD

E.O. 12958: N/A
TAGS: ETRD EAGR AR
SUBJECT: NEW AGREEMENT PUTS BEEF BACK IN MARKETS - FOR NOW

Ref: 2006 Buenos Aires 560

SUMMARY

¶1. (SBU/NF) To counter increasing shortages of beef products in Argentina, Economy Minister Felisa Miceli and Argentine beef producers agreed May 9 to raise wholesale beef prices by approximately 12% on average. The agreement affects prices for cattle sold at the main beef wholesale market in Argentina, and is valid until the end of 2007. Meat packers and butchers also agreed to freeze the prices of a number of widely consumed beef cuts for a year. The GoA also committed to allow at least 500,000 tons of beef exports for 2007, an increase of 25%, and to provide about USD 71 million for production subsidies. The goal of the GoA may simply have been to get beyond the October elections with as little disruption in consumer markets as possible, as the agreement clearly addresses the symptoms - rather than the domestic inflation and heavy-handed GoA regulation that is the cause of the problem. END SUMMARY.

PRICES, EXPORTS, AND SUBSIDIES

¶2. (SBU/NF) The GoA has used price controls, export tariffs and restraints, subsidies, and has been accused of manipulating statistics in its effort to keep headline consumer inflation below 10% in advance of October 2007 elections. Argentines consume more beef per capita than any country in the world at 63 kilograms (139 pounds) per year and beef makes up a significant 4.5% of the CPI basket. Therefore, the sector has been a prominent target of the GoA's price control policy.

¶3. (SBU/NF) Previous GoA efforts to constrain wholesale beef prices, including the publication of "reference" wholesale prices, export tariffs, bans and limits have indeed helped hold headline inflation down. But with costs not similarly constrained, producers have predictably limited sales at government-approved prices. This has led to periodic shortages at supermarkets which have attracted considerable media attention.

¶4. (SBU/NF) Following two months of negotiations, an agreement

between the GoA and most cattle ranching associations was reached on May 9. The agreement raised wholesale prices from 5% to 20% on most cuts of beef at the Liniers Cattle Market (the primary location for cattle sales in Argentina), and by about 12% on average, until the end of 2007. Packing and butchers associations also participated in the negotiations, and agreed to maintain prices on the most popular cuts. Post contacts indicate that the prices in the agreement are closer to current unofficial market prices than to previous GoA "reference" prices.

¶5. (SBU/NF) The agreement also called for an increase in exports. The GoA has capped exports since March 2006 (at that time, exports were temporarily banned - Reftel - though the restrictions were later relaxed), and the previous limit was 400,000 tons of beef per year. The new agreement raises the limit to 500,000 tons - a 25% increase - by the end of 2007. (Note: export taxes, another tool the GoA has utilized since 2002 in efforts to keep domestic prices down, were not addressed in the agreement. End Note.)

¶6. (SBU/NF) Another important aspect of the agreement is a commitment by the GoA to provide subsidies of approximately USD 71 million to increase cattle productivity, especially breeding operations, and also to negotiate loan subsidies aimed at increasing herd size. However, post contacts note that, if those funds were solely allocated to improving pastureland, that amount would be sufficient to increase herd size on a national level by only about 710,000 head of cattle - no more than 1.4% of the estimated 50 to 60 million head in Argentina.

LONG TERM QUESTIONS REMAIN

¶7. (SBU/NF) These GoA measures will likely result in increased supply in the short term. In fact, the volume of cattle sold at the Liniers market has already returned to early 2007 levels. However, repeated GoA interventions in the beef market have significantly altered the dynamics of cattle production in Argentina. According to press reports, beef export volume in the first four months of 2007 was 40 lower than the same period in 2006 (which was already 18 lower than the first four months of 2005). In the last eighteen months the number of cattle slaughtered has dropped by a million animals per year, about 7-8%. During this same period, sales of seeds to improve pasture grazing land have fallen 40%; the price of breeding heifers has fallen 20%, and approximately one million hectares of land have been switched from livestock to agricultural production. The reasons for these changes are twofold: price controls and related GoA measures have reduced profitability, making alternative land uses more appealing; and the beef market has been subject to a higher degree of GoA intervention than have other agricultural markets, creating levels of uncertainty that have impacted producers willingness to invest in building herds.

COMMENT

¶8. (SBU/NF) While beef is now back on the table of the typical Argentine, the effects of the GoA accord seem transitory at best. The latest negotiations occurred not long after the GoA last set "reference" prices, and with headline inflation running around 10%, rising costs ensure that the beef producers will be asking for new negotiations before long. Beef is the largest component in the CPI and emblematic of Argentina's image both domestically and internationally. The goal of the GoA may simply have been to get beyond the October elections with as little disruption in consumer markets as possible, as the agreement clearly addresses the symptoms - rather than the domestic inflation and heavy-handed GoA regulation that are the cause of the problem. The fact that not all cattle ranchers were represented in the negotiations is potentially significant, and at least one group that did not participate announced that it would continue to defy (or disregard) the GoA price regime. End Comment.

¶9. (U) To see more Buenos Aires reporting, visit our classified website at: http://www.state.sgov.gov/p/wha/buenosaires.< /a>

WAYNE